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SUBJECT: GROWING RESISTENCE TO GOA PRICE, EXPORT CONTROLS: AGRARIAN STRIKE

Ref: Buenos Aires 2202

Summary

11. (SBU) GoA price control czar Internal Commerce Secretary Guillermo Moreno is encountering increasing resistance to his efforts to tamp down headline consumer inflation rates via expanded export controls on beef, wheat and corn and via pressure on wholesalers and retailers to observe publicized reference prices. Protesting the impact of GoA export controls on producers, three of Argentina's main farming federations announced they will suspend grain and beef sales starting December 3 and organize follow-on protests and road blockages. The strike could result in shortages and higher prices in urban centers, pushing up December headline inflation. In a meeting with EconCouns, Moreno defended the GoA's price and export control methodology; called these controls politically indispensable; challenged agrarian producers to stand up to the full weight of the GoA's moral and legal authority to "correct" domestic market tendencies towards oligopolistic collusion; and predicted that the planned 2008 (post-election) phase-out of price controls would neither spike inflation nor contribute to higher inflationary expectations. End Summary

Moreno's Cost Control Justification

12. (SBU) EconCouns met November 30 with Internal Commerce Secretary Moreno to review the GoA's efforts to control consumer inflation via the use of price and export controls. Moreno called the GoA's approach to inflation controls a political necessity: "If the prices of bread and meat continue to rise, I'll have demonstrations in the Plaza del Mayo and then governability becomes an issue." GoA intervention, he said, is justified by Argentina's distinctive

market dynamic, one in which limited domestic market size promotes the development of monopolistic profit maximizing behavior and oligopolistic collusion. Moreno distinguished between overt price controls and his "active monitoring" of sector- and company-specific cost structures. Nevertheless, he argued that the recently resuscitated Domestic Supply Law ("Ley de Abastecimiento") gives him ample legal justification to punish producers who withhold needed products from markets either in anticipation of -- or to force -- higher prices. (Note: There remains considerable domestic debate over the legality of Moreno's threats to apply sanctions under the 30-year old Domestic Supply law without specific congressional approval. End Note).

13. (SBU) Moreno called price control philosophy flexible and stressed the importance of ensuring that companies remain "reasonably" profitable. But companies that engage in "cold-hearted" analyses of consumer price elasticity of demand and that accordingly curtail output to maximize profits are not servicing their social mandate and will simply not be tolerated, he concluded.

14. (SBU) Commenting on a November 30 newspaper ad by former Economy Minister (and likely 2007 opposition presidential candidate) Roberto Lavagna that called for "free prices" within the context of a "prudent anti-inflation" policy, Moreno said "Lavagna talked about controlling inflation while Minister but actually did little. I, Moreno, am confronting Argentine inflation directly and, when the books are written about this period, my program will be vindicated."

In response to EconCouns' question on the difficulties of unwinding price controls, Moreno predicted that the planned 2008 (post-election) phase-out of price controls would neither spike inflation nor contribute to higher inflationary expectations.

GoA Extends Beef Ban and Informal Beef Controls ...

15. (SBU) An increase in live cattle prices in recent weeks has raised concern that shoppers could face price increases in the run-up to the Christmas and New Year holidays. Moreno described how, to keep domestic beef prices from rising by increasing local supply, he and Economy Minister Miceli announced November 29 a 180 day extension of the eight-month-old cap on beef exports. These restrictions limit exports to 70 percent of average monthly exports in 2005. (Note: The cap reduces beef exports to roughly 45,000 metric tons per month from prior averages of 65,000 metric tons. Argentina is the world's fifth-largest beef producer, exporting some 596,000 tons worth US\$ 1.6 billion last year. Beef, an everyday staple among Argentines, has a weight of 4.7% in the consumer price index. End Note)

16. (U) Separately, the GoA has been circulating a list of reference prices for certain meat cuts, with "recommendations" that vendors at Liniers, the nation's principal slaughterhouse, use them as effective price caps. In response to the list, the number of animals passing through the market has plummeted 50%, with a large volume of sales taking place outside the formal market at prices up to 15% over reference prices, according to local press reports. To boost supplies in the country's cattle markets, Moreno said he had earlier announced that the minimum slaughter weight would temporarily be reduced from 280 to 240 kilos.

... Further Restrict Corn and Wheat Exports

17. (U) Amidst GoA concerns that a surge in corn exports will limit domestic supplies and lead to higher prices for domestic consumers and livestock producers, the GoA closed the registry for new-crop corn exports on November 17. The GoA also announced the creation of a registry of all domestic corn consumers, fueling speculation that some measures will be taken to ensure domestic needs are met. (Note: Under Argentine law, exporters must request permission from the registry to export grains. Poultry, pork and feedlot cattle are the primary domestic consumers of Argentine corn. End Note)

18. (SBU) In a similar vein, to curb domestic price rises, the GoA's

Agricultural Secretariat has submitted a plan to the Economy Ministry proposing the creation of a reference domestic price for wheat and wheat products (e.g. pasta, bread) and establishing quasi-quotas for wheat exports. The GoA would require wheat producers to sell wheat to domestic grain mills at USD 120 per ton and grain mills to sell to retailers at about USD 140 per ton; both prices well below current international prices. To avoid shortages, the GoA would also require producers to sell half a ton of wheat to domestic grain mills for each ton they export. Moreno explained that "windfall" producer profits from exports (due to higher global spot prices) would offset any losses on these domestic sales.

...Sets Reference Prices for Fruits and Vegetables

¶9. (SBU) In an effort to control prices of fruit and vegetables, which rose 23% and 18% respectively from January to October, the GoA issued a November 14 decree granting Moreno control over the Mercado Central, Buenos Aires' main fruit and vegetables wholesale distribution center. Following a meeting with Moreno, representatives of the Mercado Central stated that they would respect "reference" prices (effective ceiling prices) for a basket of fruit and vegetables. The list of reference prices includes 32 types of widely consumed fruit and vegetables. (Note: Fruits and

vegetables have weights of 1.5% and 2.1%, respectively, in the CPI basket, which make them key targets for Moreno. They are also politically sensitive in that fruit and vegetable prices are used in the calculation of GoA indigence and poverty indexes. End Note)

...As Agriculture Organizations Protest, Announce Strike

¶10. (SBU) Only hours before the GoA's November 28 announcement limiting beef exports, two of Argentina's four main farming federations, the Argentine Rural Federations Association (a grouping of 23 farming federations) and the Argentine Agricultural Federations, announced they would suspend grain and beef sales beginning December 3 to protest GoA restrictions on the exports of meat, wheat and corn. On December 1 a third agrarian federation, the Argentine Rural Society announced they would join the strike and the fourth major federation, the Inter-cooperative Agrarian Confederation, gave their members the freedom to individually join the planned action. Farmer representatives reported to the media plans to stop the delivery of their products (except perishables like milk), and will organize protests and road blockages. Moreno admitted that, should the strike be observed by a large proportion of farmers, it could result in shortages in the urban centers and higher prices, pushing up December headline inflation. In comments to the media December 2, both Moreno and Economy Minister Miceli called the planned strike politically motivated. Moreno threatened to use "all available tools" to ensure that Argentina's agrarian sector complies with all GoA reference price guidance.

Comment: The Slippery Slope of Market Intervention

¶11. (SBU) In the run-up to October 2007 elections, Moreno's goal is to force headline consumption basket inflation --currently running in the 10-11% range -- down to single digit levels. Privately, other senior GoA officials acknowledge that domestic inflationary pressures derive largely from the government's own macro policies of maintaining an undervalued exchange rate and of stimulating short term domestic aggregate demand beyond sustainable medium term trendlines. Publicly, these same officials repeat Moreno's mantra that price controls and related export restrictions are a necessary short term tool to control oligopolistic tendencies in Argentina's small domestic market. While GoA officials continue to say that price controls will be phased out in 2008, it is hard to imagine any phase-out scenario that would avoid a politically unappetizing post-election spike in consumer prices and inflationary expectations.

¶12. (SBU) Moreno continues to insist that his job is to control the

flow-through of legitimate costs to consumers vs. setting prices. Whatever his label, U.S. companies and local private sector contacts continue to report (Reftel) a variety of overt and implied threats from Moreno to ensure their compliance with price controls, including frequent and aggressive health and safety inspections, unannounced audits by tax authorities, the re-opening of moribund legal actions dating from the pre-crisis period, and, under the Domestic Supply law, the possibility of fines and arrest for senior company management.

¶13. (SBU) While Moreno's price control efforts have been broadly effective to date in lowering headline CPI inflation from 14-15% to the 11% range, he is discovering -- inevitably -- that retail market interventions have a ripple effect down the product supply chain. His efforts to extend pressures to wholesalers and producers are meeting with resistance and farmer federations' strike could develop into an important test of political will.

WAYNE